

CITY OF KINGSLEY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-11
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 12-13
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B 14-15
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	C 16
Notes to Financial Statements	17-22
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	24
Notes to Required Supplementary Information - Budgetary Reporting	25
Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1 27
Bond and Note Maturities	2 28
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30
Schedule of Findings	31-33

CITY OF KINGSLEY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2010)		
Wayne Plendl	Mayor	January, 2010
Ron Mathers	Council Member	January, 2010
Neal Rolling	Council Member	January, 2010
Tim Worrell	Council Member	January, 2010
Keith Bohle	Council Member	January, 2012
Doug Kraft	Council Member	January, 2012
Vicki Sitzmann	City Clerk	Indefinite
Chad Thompson	Attorney	Indefinite
(After January, 2010)		
Wayne Plendl	Mayor	January, 2012
Keith Bohle	Council Member	January, 2012
Doug Kraft	Council Member	January, 2012
Dave Dugan	Council Member	January, 2014
Ron Mathers	Council Member	January, 2014
Neal Rolling	Council Member	January, 2014
Vicki Sitzmann	City Clerk	Indefinite
Chad Thompson	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
info@hpcocpa.com

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Kingsley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of City of Kingsley, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution, by activity of the cash basis net assets, and by fund of the cash balances at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution, by activity of the cash basis net assets, and by fund of the cash balances at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of City of Kingsley as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2011, on our consideration of City of Kingsley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11, and 24 and 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Supplementary information included in Schedules 1 and 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 1, 2011

Hungelman, Putzier & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Kingsley provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities were \$1,052,270 for the year ended June 30, 2010 and included \$268,873 in property taxes, \$59,285 in tax increment financing collections, and \$116,714 in local option sales tax.

Disbursements of the City's governmental activities were \$1,152,210 for the year ended June 30, 2010 and included \$284,596 for culture and recreation, \$263,576 for public works, \$219,378 for debt service, and \$152,856 for public safety.

The City's total cash basis net assets decreased 7.7%, or approximately \$70,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$100,000 and the assets of the business type activities increased by approximately \$30,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.

Business Type Activities include water, sewer, and solid waste collection services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two categories of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, (3) the Debt Service Fund, and (4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds. These are all considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30, 2010</u>
Receipts:	
Program receipts:	
Charges for service	\$ 129,442
Operating grants, contributions and restricted interest	155,090
Capital grants, contributions and restricted interest	134,538
General receipts:	
Property tax	268,873
Tax increment financing	59,285
Local option sales tax	116,714
Unrestricted interest on investments	23,760
Loan proceeds	110,678
Sale of assets	45,000
Other general receipts	8,890
Total receipts	<u>1,052,270</u>
Disbursements:	
Public safety	152,856
Public works	263,576
Culture and recreation	284,596
Community and economic development	80,215
General government	151,589
Debt service	219,378
Total disbursements	<u>1,152,210</u>
Decrease in cash basis net assets	(99,940)
Cash basis net assets beginning of year	<u>642,169</u>
Cash basis net assets end of year	<u>\$ 542,229</u>

The cash basis net assets of the City's governmental activities decreased 15.6%, or approximately \$100,000 due primarily to a \$100,000 down payment on the new maintenance building.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended <u>June 30, 2010</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 82,994
Sewer	61,839
Solid waste	136,803
Total receipts	<u>281,636</u>
Disbursements:	
Water	67,042
Sewer	75,247
Solid waste	109,577
Total disbursements	<u>251,866</u>
Increase in cash basis net assets	29,770
Cash basis net assets beginning of year	<u>263,651</u>
Cash basis net assets end of year	<u>\$ 293,421</u>

Total business type activities cash basis net assets increased from a year ago, from approximately \$264,000 to approximately \$293,000. The increase is primarily the result of increasing the penalty on water bills to ten (10) percent of the entire bill, not just on water charges, increased revenue on recycling program, and construction/demolition tonnage charges.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Kingsley completed the year, its governmental funds reported a combined fund balance of \$542,229, a decrease of \$99,940 from last year's total of \$642,169. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$4,856 from the prior year to \$66,371.

The Special Revenue, Road Use Tax Fund cash balance increased by \$30,327 to \$58,851 during the fiscal year. This increase was primarily due to I-Jobs revenue and the end loader loan.

The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$64,819 to \$153,089 primarily due to debt service payments on the water tower and maintenance building being made from Local Option revenues.

The Special Revenue, Tax Increment Financing Fund cash balance decreased by \$9,346 from the prior year to \$150,851.

The Debt Service Fund cash balance decreased by \$51,944 to \$56,726 primarily due to debt service payments for the new maintenance building.

The Permanent Fund, Cemetery cash balance increased by \$698 from the prior year to \$56,341.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased by \$15,952 to \$77,738 during the fiscal year primarily because of increased penalty on late payments.

The Enterprise, Sewer Fund cash balance decreased by \$13,408 to \$66,472 during the fiscal year due to anticipated reimbursement for lagoon planning and design loan request.

The Enterprise, Solid Waste Fund cash balance increased by \$27,226 to \$149,211. This increase was primarily the result of increased revenue from recycle program and construction/demolition charges.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 3, 2010, and resulted in an increase of \$358,992 in receipts and \$249,937 in disbursements.

Public Works: budgeted \$245,585; spent \$263,575. Latter amount was overspent for snow removal and maintenance tools which was not budgeted or amended for.

Health & Social Services: budgeted \$500; spent \$4,800. Latter amount was expended for mosquito control which was not budgeted or amended for.

Culture & Recreation: budgeted \$275,400; spent \$280,777. Latter amount was expended for trail expenses which was not budgeted or amended for.

Community & Economic Development: budgeted \$74,300; spent \$80,215. Latter amount was overspent for tax payment on city acquired property that had been abandoned and funds to assist golf course which were not budgeted or amended for.

General Government: budgeted \$128,400; spent \$151,589. Latter amount was expended for legal fees which were not budgeted or amended for.

Debt Service: budgeted \$119,378; spent \$219,378. Latter amount was expended for down payment on new maintenance building which was not budgeted or amended for.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$712,211 in bonds and loans outstanding, compared to \$490,000 last year, as shown below.

<u>Outstanding Debt at Year-End</u>	
	Year ended <u>June 30, 2010</u>
General obligation debt	<u>\$ 712,211</u>

Debt increased as a result of incurring \$110,678 in general obligation loans to purchase a loader and assuming \$311,533 under a capital lease obligation for the construction of the City maintenance building.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$712,211 is significantly below its constitutional debt limit of approximately \$2.8 million.

ECONOMIC FACTORS

City of Kingsley's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates, and fees charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Vicki Sitzmann, City Clerk, P.O. Box 309, Kingsley, Iowa 51028-0309.

CITY OF KINGSLEY
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit A

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
Public safety	\$ 152,856	\$ 56,731	\$ 4,000	\$ 13,292	\$ (78,833)	\$ -	\$ (78,833)
Public works	263,576	1,509	115,489	29,043	(117,535)	-	(117,535)
Culture and recreation	284,596	39,562	34,028	92,203	(118,803)	-	(118,803)
Community and economic development	80,215	-	-	-	(80,215)	-	(80,215)
General government	151,589	31,640	1,573	-	(118,376)	-	(118,376)
Debt service	219,378	-	-	-	(219,378)	-	(219,378)
Total governmental activities	<u>1,152,210</u>	<u>129,442</u>	<u>155,090</u>	<u>134,538</u>	<u>(733,140)</u>	<u>-</u>	<u>(733,140)</u>
Business-type activities:							
Water	67,042	82,994	-	-	-	15,952	15,952
Sewer	75,247	61,839	-	-	-	(13,408)	(13,408)
Solid waste	109,577	136,803	-	-	-	27,226	27,226
Total business-type activities	<u>251,866</u>	<u>281,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,770</u>	<u>29,770</u>
Total	<u>\$ 1,404,076</u>	<u>\$ 411,078</u>	<u>\$ 155,090</u>	<u>\$ 134,538</u>	<u>(733,140)</u>	<u>29,770</u>	<u>(703,370)</u>
General Receipts:							
Property and other city tax levied for:							
General purposes					268,566	-	268,566
Debt service					307	-	307
Tax increment financing					59,285	-	59,285
Local option sales tax					116,714	-	116,714
Loan proceeds					110,678	-	110,678
Unrestricted interest on investments					23,760	-	23,760
Sale of assets					45,000	-	45,000
Miscellaneous					8,890	-	8,890
Total general receipts					<u>633,200</u>	<u>-</u>	<u>633,200</u>
Change in cash basis net assets					(99,940)	29,770	(70,170)
Cash basis net assets beginning of year					<u>642,169</u>	<u>263,651</u>	<u>905,820</u>
Cash basis net assets end of year					<u>\$ 542,229</u>	<u>\$ 293,421</u>	<u>\$ 835,650</u>

(continued)

CITY OF KINGSLEY
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit A
(continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for	Operating	Capital	Governmental	Business-type	Total
	Disbursements	Services	Grants and Contributions	Grants and Contributions	Activities	Activities
Cash Basis Net Assets						
Restricted:						
Nonexpendable:						
Cemetery perpetual care				\$ 56,341	\$ -	\$ 56,341
Expendable:						
Streets				58,851	-	58,851
Tax increment financing projects				150,850	-	150,850
Debt service				56,726	-	56,726
Other purposes				136,859	-	136,859
Unrestricted				82,602	293,421	376,023
Total cash basis net assets				<u>\$ 542,229</u>	<u>\$ 293,421</u>	<u>\$ 835,650</u>

See notes to financial statements

CITY OF KINGSLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Special Revenue				Permanent		
	General	Road Use	Local Option Sales Tax	Tax Increment Financing	Debt Service	Cemetery	Total
Receipts:							
Property tax	\$ 268,566	\$ -	\$ -	\$ -	\$ 307	\$ -	\$ 268,873
Tax increment financing	-	-	-	59,285	-	-	59,285
Other city tax	-	-	116,714	-	-	-	116,714
Licenses and permits	22,950	-	-	-	-	-	22,950
Use of money and property	43,671	-	-	-	-	48	43,719
Intergovernmental	18,882	115,489	-	-	-	-	134,371
Charges for services	78,180	-	-	-	-	-	78,180
Miscellaneous	170,250	-	-	-	-	1,250	171,500
Total receipts	<u>602,499</u>	<u>115,489</u>	<u>116,714</u>	<u>59,285</u>	<u>307</u>	<u>1,298</u>	<u>895,592</u>
Disbursements:							
Operating:							
Public safety	152,856	-	-	-	-	-	152,856
Public works	67,736	195,840	-	-	-	-	263,576
Culture and recreation	283,996	-	-	-	-	600	284,596
Community and economic development	22,684	-	-	57,531	-	-	80,215
General government	151,589	-	-	-	-	-	151,589
Debt service	-	-	-	-	219,378	-	219,378
Total disbursements	<u>678,861</u>	<u>195,840</u>	<u>-</u>	<u>57,531</u>	<u>219,378</u>	<u>600</u>	<u>1,152,210</u>
Excess (deficiency) of receipts over disbursements	<u>(76,362)</u>	<u>(80,351)</u>	<u>116,714</u>	<u>1,754</u>	<u>(219,071)</u>	<u>698</u>	<u>(256,618)</u>
Other financing sources (uses):							
Loan proceeds	-	110,678	-	-	-	-	110,678
Proceeds from sale of assets	45,000	-	-	-	-	-	45,000
Industrial development loan repayments	1,000	-	-	-	-	-	1,000
Operating transfers in	25,506	-	-	-	167,127	-	192,633
Operating transfers out	-	-	(181,533)	(11,100)	-	-	(192,633)
Total other financing sources (uses)	<u>71,506</u>	<u>110,678</u>	<u>(181,533)</u>	<u>(11,100)</u>	<u>167,127</u>	<u>-</u>	<u>156,678</u>
Net change in cash balances	<u>(4,856)</u>	<u>30,327</u>	<u>(64,819)</u>	<u>(9,346)</u>	<u>(51,944)</u>	<u>698</u>	<u>(99,940)</u>
Cash balances beginning of year	<u>71,227</u>	<u>28,524</u>	<u>217,908</u>	<u>160,197</u>	<u>108,670</u>	<u>55,643</u>	<u>642,169</u>
Cash balances end of year	<u>\$ 66,371</u>	<u>\$ 58,851</u>	<u>\$ 153,089</u>	<u>\$ 150,851</u>	<u>\$ 56,726</u>	<u>\$ 56,341</u>	<u>\$ 542,229</u>

(continued)

CITY OF KINGSLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B
(continued)

	Special Revenue				Permanent		
	General	Road Use	Local Option Sales Tax	Tax Increment Financing	Debt Service	Cemetery	Total
Cash Basis Fund Balances							
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ 56,726	\$ -	\$ 56,726
Unreserved:							
General fund	66,371	-	-	-	-	-	66,371
Special revenue funds	-	58,851	153,089	150,851	-	-	362,791
Permanent fund	-	-	-	-	-	56,341	56,341
Total cash basis fund balances	\$ 66,371	\$ 58,851	\$ 153,089	\$ 150,851	\$ 56,726	\$ 56,341	\$ 542,229

See notes to financial statements

CITY OF KINGSLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	<u>Enterprise</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Operating receipts:				
Charges for services	\$ 82,994	\$ 61,789	\$ 136,803	\$ 281,586
Miscellaneous	-	50	-	50
Total operating receipts	82,994	61,839	136,803	281,636
Operating disbursements:				
Business type activities	67,042	75,247	109,577	251,866
Net change in cash balances	15,952	(13,408)	27,226	29,770
Cash balances beginning of year	61,786	79,880	121,985	263,651
Cash balances end of year	<u>\$ 77,738</u>	<u>\$ 66,472</u>	<u>\$ 149,211</u>	<u>\$ 293,421</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 77,738</u>	<u>\$ 66,472</u>	<u>\$ 149,211</u>	<u>\$ 293,421</u>

See notes to financial statements

CITY OF KINGSLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Kingsley is a political subdivision of the State of Iowa located in Plymouth County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Kingsley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standard Board criteria.

Jointly Governed Organizations - The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to Plymouth County Assessor's Conference Board, Plymouth County E911 Board, and Plymouth County Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

CITY OF KINGSLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements

The City reports the following major governmental funds:

The General Fund is the main operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment and property tax relief.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Permanent, Cemetery Fund is used to account for certain transactions relating to the cemetery.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's system of solid waste removal.

CITY OF KINGSLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

City of Kingsley maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, and debt service functions.

2. CASH

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF KINGSLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Year Ending June 30	<u>General Obligation</u>	
	<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 50,000	\$ 16,935
2012	59,015	17,815
2013	59,565	15,645
2014	60,158	13,387
2015	65,765	11,071
2016-2019	206,175	17,573
	<u>\$ 500,678</u>	<u>\$ 92,426</u>

4. CAPITAL LEASE PURCHASE AGREEMENT

The City has entered into a capital lease purchase agreement to lease a maintenance building. The following is a schedule of the future minimum lease payments, including interest at 4.00% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2010.

Year Ending June 30	
2011	\$ 34,950
2012	34,950
2013	34,950
2014	34,950
2015	34,950
2016-2017	69,904
	<u>244,654</u>
Less amount representing interest	<u>(33,121)</u>
Present value of net minimum lease payments	<u>\$ 211,533</u>

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2010, was \$16,903 equal to the required contribution for the year.

CITY OF KINGSLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 9,966</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

7. SOLID WASTE DISPOSAL AGREEMENT

The City entered into an agreement with the Plymouth County Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste from within the City. For the year ended June 30, 2010, \$47,193 was paid pursuant to the agreement.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform maintenance and monitoring functions at the site for thirty years after closure. The costs for closure and post closure to the Agency have been estimated at \$760,000 as of June 30, 2010, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2010 deposits of \$552,015 are restricted for these purposes. No estimate has been made as to the effect of future assessments to the City.

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	<u>\$ 25,506</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	156,027
	Tax Increment Financing	<u>11,100</u>
		<u>167,127</u>
		<u>\$ 192,633</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9. SERVICE AGREEMENTS

The City has an agreement with Sanitary Services for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$62,045 for the year ended June 30, 2010.

CITY OF KINGSLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and no retired members in the plan. Participants must be age 55 or older at retirements.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$199.88 for single coverage and \$499.69 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$20,088 and plan members eligible for benefits contributed \$0 to the plan.

11. INDUSTRIAL DEVELOPMENT LOANS RECEIVABLE

The City periodically gives 0% interest bearing loans to businesses that wish to locate within city limits to promote industrial development. Below is a summary of this activity for the year ended June 30, 2010.

<u>Balance</u>	<u>New Loans</u>	<u>Payments</u>	<u>Balance</u>
<u>6/30/09</u>	<u>Issued</u>	<u>Received</u>	<u>6/30/10</u>
<u>\$ 8.875</u>	<u>\$ -</u>	<u>\$ 1.000</u>	<u>\$ 7.875</u>

12. RISK MANAGEMENT

City of Kingsley is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. COMMITMENTS

During the year ended June 30, 2002, the City entered into a 28E Agreement with Plymouth County and surrounding communities to contribute funds for the construction of a County jail from local option sales tax proceeds. The bonds were refinanced during 2010 and the City of Kingsley's remaining commitment as of June 30, 2010, is \$92,949.

14. CONSTRUCTION CONTRACT

The City has entered into the following contract which was not completed as of June 30, 2010.

<u>Project</u>	<u>Total</u> <u>Contract</u> <u>Amount</u>	<u>Amount Paid</u> <u>As of</u> <u>6-30-10</u>	<u>Remaining Commitment</u> <u>As of</u> <u>6-30-10</u>
Recreational trail	\$129,913	\$124,266	\$5,647

The above costs will be paid from grant proceeds and funds on hand.

15. RELATED PARTY TRANSACTIONS

The City had business transactions with City officials totaling \$9,903 during the year ended June 30, 2010

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KINGSLEY
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 268,873	\$ -	\$ 268,873	\$ 263,519	\$ 263,519	\$ 5,354
Tax increment financing	59,285	-	59,285	56,365	56,365	2,920
Other city tax	116,714	-	116,714	125,511	125,511	(8,797)
Licenses and permits	22,950	-	22,950	3,385	3,385	19,565
Use of money and property	43,719	-	43,719	56,400	56,400	(12,681)
Intergovernmental	134,371	-	134,371	128,930	239,072	(104,701)
Charges for service	78,180	281,636	359,816	359,000	359,000	816
Miscellaneous	171,500	-	171,500	58,700	151,872	19,628
Total receipts	895,592	281,636	1,177,228	1,051,810	1,255,124	(77,896)
Disbursements:						
Public safety	152,856	-	152,856	149,558	164,710	11,854
Public works	263,576	-	263,576	131,400	245,585	(17,991)
Health and social services	-	-	-	500	500	500
Culture and recreation	284,596	-	284,596	182,400	275,400	(9,196)
Community and economic development	80,215	-	80,215	58,800	74,300	(5,915)
General government	151,589	-	151,589	128,400	128,400	(23,189)
Debt service	219,378	-	219,378	119,378	119,378	(100,000)
Business type activities	-	251,866	251,866	259,330	271,430	19,564
Total disbursements	1,152,210	251,866	1,404,076	1,029,766	1,279,703	(124,373)
Excess (deficiency) of receipts over disbursements	(256,618)	29,770	(226,848)	22,044	(24,579)	(202,269)
Other financing sources, net	156,678	-	156,678	2,000	157,678	(1,000)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(99,940)	29,770	(70,170)	24,044	133,099	(203,269)
Balance, beginning of year	642,169	263,651	905,820	823,050	823,050	82,770
Balance, end of year	\$ 542,229	\$ 293,421	\$ 835,650	\$ 847,094	\$ 956,149	\$ (120,499)

See accompanying independent auditor's report.

CITY OF KINGSLEY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2010 the budget was amended one time which increased budgeted disbursements by \$249,937. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, and debt service functions.

SUPPLEMENTARY INFORMATION

CITY OF KINGSLEY
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010

Schedule 1

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds/notes:									
Library/City Hall bonds	May 1, 1999	4.50%	\$ 400,000	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ 2,250	\$ -
Urban Development notes	April 15, 2000	5.50%	75,000	20,000	-	10,000	10,000	1,100	-
Water Tower notes	August 4, 2003	3.20-4.35%	650,000	420,000	-	40,000	380,000	16,027	-
Loader	February 17, 2010	4.00%	110,678	-	110,678	-	110,678	-	-
				<u>\$ 490,000</u>	<u>\$ 110,678</u>	<u>\$ 100,000</u>	<u>\$ 500,678</u>	<u>\$ 19,377</u>	<u>\$ -</u>
Capital lease:									
Maintenance building	June 9, 2010	4.00%	\$ 311,533	<u>\$ -</u>	<u>\$ 311,533</u>	<u>\$ 100,000</u>	<u>\$ 211,533</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF KINGSLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Schedule 2

General Obligation Bonds/Notes							
Year Ending June 30,	Urban Development Issued April 15, 2000		Water Tower Issued August 4, 2003		Loader Issued February 17, 2010		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	5.50%	\$ 10,000	3.40%	\$ 40,000	4.00%	\$ -	\$ 50,000
2012		-	3.60	45,000	4.00	14,015	59,015
2013		-	3.70	45,000	4.00	14,565	59,565
2014		-	3.80	45,000	4.00	15,158	60,158
2015		-	3.90	50,000	4.00	15,765	65,765
2016		-	4.05	50,000	4.00	16,395	66,395
2017		-	4.15	50,000	4.00	17,047	67,047
2018		-	4.25	50,000	4.00	17,733	67,733
		-	4.35	5,000	4.00	-	5,000
		<u>\$ 10,000</u>		<u>\$ 380,000</u>		<u>\$ 110,678</u>	<u>\$ 500,678</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
info@hpcocpa.com

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Kingsley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of City of Kingsley, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 1, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Kingsley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Kingsley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Kingsley's internal control over financial reporting.

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-10, I-B-10, and I-C-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kingsley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Kingsley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Kingsley's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Kingsley, and other parties to whom City of Kingsley may report. This report is not intended to be and should not be used by anyone other than these specified parties.

February 1, 2011

Hungelman, Putzger & Co.

CITY OF KINGSLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will review the segregation of duties and have an appointed Council member check financial paperwork quarterly.

Conclusion - Response accepted.

- I-B-10 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - The City Clerk will try to obtain financial reporting knowledge either online, through the Iowa League of Cities, or at a local community college.

Conclusion - Response accepted.

- I-C-10 Record of Accounts - The fire department and ambulance maintain the accounting records pertaining to the operation of those funds. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

Response - City Council will review the situation, contact the heads of the ambulance and fire departments, and discuss the necessary changes for accounting purposes. The City Clerk will also request a written quarterly report from the Ambulance and Fire Department treasurers.

Conclusion - Response accepted.

CITY OF KINGSLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Statutory Reporting:

- II-A-10 Certified Budget - Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Budget amendments will be done more carefully. Program balances will be monitored quarterly.

Conclusion - Response accepted.

- II-B-10 Questionable Disbursements - The City makes monthly payments to the volunteer ambulance department based on the number of calls made by the personnel. However, the City has no documentation which demonstrates that these funds were expended for a proper public purpose.

Recommendation - The City should directly pay expenses for the volunteer ambulance department based on sufficient documentation that the expenditure serves a public purpose.

Response - The City Clerk uses the ambulance run sheets as documentation as to which ambulance volunteers need to be given the allowance for reporting to the scene or accompanying the patient to the hospital.

Conclusion - Response accepted.

- II-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-10 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Neal Rolling, Council Member, Part owner of Rolling Oil Co.	Fuel/repairs/maintenance supplies	\$ 9,903

In accordance with chapter 362.5(11) of the Code of Iowa, the transactions with Rolling Oil Co. may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year.

Recommendation - The Code does allow the City to transact business with City officers or employees in excess of \$2,500 but only if the contract is made subject to a competitive bid in writing, publicly invited, and opened. The City should consult their attorney to determine that they are in compliance with the Code of Iowa.

Response - Rolling Oil is one of two local gas stations that the City purchases gas from. We also have repairs and maintenance done at this location. The prices from the two businesses selling gas are competitive on a daily basis.

Conclusion - Response accepted.

CITY OF KINGSLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, The City entered into a closed session under Chapter 21.5(i) of the Code of Iowa to discuss personnel issues but the individuals did not request that the session be closed.

Recommendation - The City should follow proper procedure when entering into closed session.

Response - We will follow proper procedures for all closed sessions in the future.

Conclusion - Response accepted.

II-G-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-10 Tax Increment Financing Fund Balance - The fund balance of the Tax Increment Financing Fund should be increased by approximately \$24,800 to reflect the proper balance as of June 30, 2010.

Recommendation - There are several transfers to and from other funds which should be made in order to adjust this fund balance to the proper amount as of June 30, 2010.

Response - All transfers to and from the Tax Increment Financing Fund have been made as recommended by the Auditor.

Conclusion - Response accepted.